IR5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 43A November 9, 1990

JAPAN'S OVERSEAS TECHNICAL ASSISTANCE PROGRAM

Summary

Now that Japan is the world's largest foreign aid donor, the initial focus on yen loans and grants is evolving to address technical assistance, which includes human resource development. Developing countries consider trained personnel essential to continued economic progress. Therefore, expectations have grown for Japan to offer more technical assistance through sending experts to countries that receive aid and accepting trainees from them. Since much-sought-after industrial technology and management know-how are gained primarily from the private sector, the Japanese business community, as well as the government, has a large role to play to facilitate Japan's extension of technical assistance. More effective and collaborative networks between the government and the private sector are critical if Japan is to cope with the expanding call for human resource development in Third World countries.

A More Influential Aid Donor

Japan's outlay of Y1.2 trillion-plus ($9 billion at the 1989 average exchange rate of Y137.96=$1.00) made it the world's largest donor of official development assistance in 1989. This number-one ranking among the 18 members of the Development Assistance Committee of the Organization for Economic Cooperation and Development came after strong second-place showings in the previous two years (see JEI Report No. 26B, July 6, 1990). From the start of its economic aid program to developing countries in 1955, Tokyo has considered foreign aid as one way it could contribute to an improved global society. In 1988 this theme became one of then Prime Minister Noboru Takeshita's three pillars in

Japan's more internationalist outlook: expanded economic cooperation, support of international peace initiatives and increased cultural exchanges.

Growing expectations from other industrialized nations and from developing countries for Japan to share its increased wealth prompted the government to increase its goals for ODA outlays continually in the 1980s. For example, the target for foreign aid expenditures between 1988 and 1992 is to provide over $50 billion in economic assistance, more than double the expenditures of the 1983-87 period. As shown in Table 1, Japan's foreign aid has expanded nearly 20-fold since 1970. Part of this rapid increase can be attributed to the appreciation of the yen between 1985 and late 1988 since aid figures are calculated by the OECD on the basis of net disbursements in dollars. But, even when viewed in yen, Tokyo has been generous.

Table 1: Allocation of Japan's Official Development Assistance

(in millions of dollars, disbursement basis)

Year	1970	1975	1980	1985	1988	1989
Bilateral Aid	$372	$850	$1,961	$2,557	$6,422	$6,779
Loans	250	649	1,308	1,372	3,514	3,741
Grants	100	115	375	636	1,483	1,556
Technical Assistance*	22	87	278	549	1,425	1,481
Technical Assistance Share	5.9%	10.2%	14.2%	21.5%	22.2%	21.8%
Multilateral Aid	87	297	1,343	1,240	2,712	2,186
Total ODA	458	1,148	3,304	3,797	9,134	8,965
Share of Technical Assistance in Total ODA	4.8%	7.6%	8.4%	14.5%	15.6%	16.5%

*Administrative costs and subsidies to nongovernmental organizations are included in the technical assistance figures. If they are excluded, technical assistance in 1988 and 1989 amounted to $1,093 million and $1,137 million, respectively.

Source: Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1990 (Japan's Official Development Assistance, 1990 Annual Report).

Throughout the 1980s foreign aid received priority in the general account budget even when other budget categories faced a bare-bones ceiling. Although the economic assistance funded by the general account budget is only a portion of Japan's net ODA disbursements (the rest comes from the Fiscal Investment and Loan Program and other sources), the budget perspective shows the upward trend in ODA allocations. The initial FY 1990 general account foreign aid budget, for example, amounted to Y817 billion ($6.1 billion at Y135=$1.00),

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

more than double that allocated initially in FY 1981. The doubling of funds for ODA during this period exceeded the increases for all other budget categories, such as defense (up 73 percent), social security (a 34 percent gain), education (up 7 percent) and public works (a 7 percent decline).

Japan's Technical Assistance Outlook

Rather than concentrating on simply increasing foreign aid expenditures, the Japanese government also has worked to improve the quality of its overseas assistance by expanding grants and technical assistance. Table 1 breaks down Japan's aid disbursements into its major components. Financial assistance, especially in the form of loans, makes up the backbone of the program, although its share has dropped from about 70 percent in the 1970s to slightly more than half today. Both grants and technical cooperation have increased steadily. While developing countries appreciate the goods and infrastructure that loans and grants can help buy, technical assistance is becoming increasingly important to enable recipient countries to make the most out of their new materials and structures.

Broadly defined, technical assistance includes training citizens from recipient countries in Japan and dispatching Japanese experts in various areas like industrial technology and management. In other words, the term can be defined as assistance through the medium of men and women. As is indicated in Table 1, Japan boosted disbursements of technical cooperation from $22 million in 1970, equivalent to 4.8 percent of total bilateral and multilateral outlays, to $1.5 billion, or 16.5 percent of total ODA in 1989. The numbers include indirect administrative costs, such as expenditures for Japanese management staff, according to the Japanese government's definition of technical assistance. Excluding those costs, disbursements in 1989 would have been $1.1 billion, or 12.7 percent of total ODA.

In spite of increased funding for technical assistance in recent years, Japan's outlays still are small by international standards (see Table 2). The OECD's Development Assistance Committee does not count administrative costs in the technical assistance disbursement figures for its 18 member countries; thus, Japan's spending for technical cooperation was calculated as just under $1.1 billion in 1988. This amount was smaller than either that of France, the United States or West Germany, although Japan ranked as the second-largest ODA provider that year. Moreover, the ratio of Japan's technical assistance to total ODA -- 12 percent -- was one of the smallest among DAC member countries, which averaged 21.3 percent that year. In terms of helping developing nations with people power and not just money, Japan ranked 14th on the basis of technical assistance to total ODA in 1988.

Most of the technical cooperation that Japan funds falls into the categories of training either at home or through experts sent abroad. But the heading covers every kind of assistance other than grants and loans. Table 3 breaks down Japan's technical cooperation expenditures by purpose. Receiving foreign students and trainees from developing countries and sending experts to these countries accounted for 60.5 percent of 1988's spending. Not only does technical staff often accompany equipment purchased by grants, but they often may bring equipment provided under their training funds. For example, Japanese medical personnel often bring medical equipment to instruct local staff on how to use it. Among the other types of technical aid provided by Japan are cooperation in research and development, which includes funding for joint academic

Table 2: Comparision of Technical Assistance Provided by Members of Development Assistance Committee, 1988

(in millions of dollars)

Country	Total ODA (A)	Bilateral Aid (B)	Technical Assistance (C)	Share C/A	Share C/B
United States	$10,141	$6,765	$2,127	21.0%	31.4%
Japan	9,134	6,422	1,093	12.0	17.0
France	6,865	5,601	2,422	35.3	43.2
West Germany	4,731	3,172	1,594	33.7	50.3
Italy	3,183	2,408	286	9.0	11.9
United Kingdom	2,645	1,430	642	24.3	44.9
Canada	2,342	1,579	403	17.2	25.5
Netherlands	2,231	1,552	631	28.3	40.7
Sweden	1,529	1,054	207	13.5	19.6
Australia	1,101	622	203	18.4	32.6
Norway	985	572	86	8.7	15.0
Denmark	922	478	95	10.3	19.9
Switzerland	617	445	103	16.7	23.1
Finland	608	380	25	4.1	6.6
Belgium	597	423	176	29.5	41.6
Austria	302	163	68	22.5	41.7
New Zealand	105	93	49	46.7	52.7
Ireland	57	22	13	22.8	59.1
DAC Total	48,094	33,180	10,222	21.3	30.8

Note: DAC data exclude administrative costs and subsidies to nongovernmental organizations from technical assistance.

Source: Organization for Economic Cooperation and Development, Development Assistance Committee, Development Co-Operation: 1989 Report.

research projects between public institutes and/or universities in Japan and the recipient countries. International conferences on economic cooperation, construction of refugee centers in Japan and fact-finding missions on development projects in Third World countries are covered by the other categories shown in Table 3.

Table 4 shows the areas addressed by technical cooperation, such as basic human needs, economic infrastructure, manufacturing and services. Not only have requests for aid increased in recent years but they have grown more diverse. Since the Japanese government's manpower pool is inadequate to respond to the many and varied requests Tokyo receives, it has sought the cooperation of professionals in the private sector, especially from the manufacturing and the service industries, which are asked to host trainees in their factories or companies as well as to send technicians to government-run training programs as short-term instructors.

Government's Involvement in Technical Cooperation

A broad cross-section of government organizations has responded to Third World requests for technical assistance. In the central government alone 17

Table 3: Japan's Technical Assistance*

(in millions of dollars, disbursement basis)

	1985	1988	Percent Change
Receiving Students and Trainees	$118	$339	187.3%
Students	36	138	283.3
Trainees	83	202	143.4
Sending Personnel	216	483	123.6
Japan Overseas Cooperation Volunteers	23	51	121.7
Other Experts	193	432	123.8
Providing Equipment	54	130	140.7
Cooperation in Research and Development	7	12	71.4
Other	153	394	157.5
Total	549	1,359	147.5

*Administrative costs are included in the figures but subsidies to nongovernmental organizations are excluded.

Source: Ministry of International Trade and Industry, Keizai Kyoryoku no Genjo to Mondaiten, 1989 (White Paper on Economic Cooperation).

ministries and agencies are involved in technical cooperation (see Table 5). Among those chiefly in charge of receiving trainees and sending experts are the Ministries of Foreign Affairs, International Trade and Industry, and Labor. These three ministries accounted for 84.5 percent of the funds earmarked in the FY 1990 general account budget for technical cooperation. The other ministries and agencies involved in Japan's overseas technical assistance program tend to have various small, specific projects, such as scholarships for foreign students, international conferences on economic cooperation and exchanges of scholars and researchers for joint research projects. Thus, Tokyo's major efforts in the technical assistance field fall into the two principal areas of sending experts and receiving trainees; the government is the leading actor in both situations but relies heavily on the private sector.

Sending Experts - The Japan International Cooperation Agency, a government organization funded by the Foreign Ministry, and the Japan Overseas Development Corp., a semipublic organization underwritten by MITI, are the two major organizations in charge of sending experts to developing countries. While JICA dispatches primarily Japanese public servants to work with host countries' public organizations at the request of a developing country government, JODC sends specialists from Japan's private sector to companies in a host country after approving a request from a business organization or individual firm in the recipient country.

JICA's experts are divided broadly into two types. The first category includes those with professional knowledge in a specific field. Since JICA receives various kinds of requests, the organization asks public research

Table 4: Distribution of Japan's Technical Assistance, 1989

(in millions of dollars, commitment basis)

Category	Amount	Share
Basic Human Needs	$803	51.0%
Social Infrastructure and Services	601	38.2
Education and Vocational Training	345	21.9
Health	73	4.6
Water Supplies and Sanitation	29	1.8
Population Programs	7	0.4
Public Administration	7	0.4
Development Planning	43	2.7
Other	97	6.2
Agriculture	202	12.8
Economic Infrastructure	153	9.7
Transportation	68	4.3
Communications	38	2.4
River Development	18	1.1
Energy	25	1.6
Other	5	0.3
Industry, Mining and Construction	165	10.5
Trade, Banking and Tourism	21	1.3
Multisector	88	5.6
Administrative Costs	269	17.1
Unspecified	75	4.8
Total	1,575	100.0

Source: Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1990 (Japan's Official Development Assistance, 1990 Annual Report).

institutes, universities and even companies to provide qualified personnel on a short-term basis to JICA to respond to the requests. The second category draws on volunteers under age 39 who are interested in helping the social and/or economic development of Third World countries. These Japan Overseas Cooperation Volunteers do not always have to have sophisticated skills but are required to be healthy enough to live in outposts with few amenities. In the current fiscal year 2,512 experts and 854 volunteers have been given assignments overseas (see Table 6). These numbers are four times those of FY 1974 when JICA was established. By adding people sent in previous years who are still in the host countries, JICA presently can count 4,005 experts and 1,789 volunteers providing technical assistance to developing countries. JICA gives experts and volunteers training in English and/or in the host country's language and an introduction to the country's social and economic situation. It also offers some training in teaching methods where appropriate.

Table 5: Budgeted Technical Assistance by Ministry or Agency, FY 1990

(in millions of yen, general account budget)

Organization	Amount	Examples of Programs Funded
Ministry of Foreign Affairs	Y164,830	Japan International Cooperation Agency (training, Japan Overseas Cooperation Volunteers, fact-finding missions)
Ministry of Education	27,016	Scholarships for foreign students; academic exchanges
Ministry of International Trade and Industry	25,306	Association for Overseas Technical Scholarship (training); Japan Overseas Development Cooperation Association (experts)
Ministry of Agriculture	3,893	Promotion of food production and fishing; forest preservation
Management and Coordination Agency	1,434	Statistical assistance; international youth exchanges
Ministry of Labor	1,423	Japan Vocational Ability Development Association (training); Overseas Vocational Training Association (experts)
Ministry of Health and Welfare	597	Health and sanitation
Ministry of Justice	461	Refugee assistance; international crime prevention
Science and Technology Agency	455	R&D assistance in nuclear energy and environment
Ministry of Construction	384	R&D in overseas construction and sewage disposal
Ministry of Transportation	361	Transportation technology
Environment Agency	178	Global environmental problems
Ministry of Finance	157	Meetings with international financial organizations
Ministry of Posts and Telecommunications	116	Basic research in international telecommunications
Economic Planning Agency	111	Seminars on international cooperation
Police Agency	85	Seminars on organized crime in Asia; antidrug programs
Ministry of Home Affairs	12	Training of local government officials in developing countries
Total	226,819	

Source: Survey by Keidanren (Japan Federation of Economic Organizations)

Table 6: Expansion of JICA's Activities

	FY 1974	FY 1990	Percent Change
Budget (in billions of yen)	Y27.2	Y125.0	359.6%
Number of Trainees	2,169	6,388*	194.5
Number of Japanese Overseas Cooperation Volunteers	208	854*	310.6
Number of Other Experts	513	2,512* (1989)	389.7

*New appointees only. Current figures, including those who continue to stay in their positions, are as follows:

7,324 trainees as of FY 1990
1,789 JOCVs as of FY 1990
4,005 experts as of FY 1989

Source: Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1990 (Japan's Official Development Assistance, 1990 Annual Report).

Table 7 illustrates the geographical distribution of experts and volunteers in FY 1988. The majority of JICA's experts (55 percent) worked in East and Southeast Asia; 18 percent were in Latin America. The distribution of JICA personnel generally corresponds with the geographical allocation of Japan's bilateral aid (shown in Table 8). Many of JICA's volunteers, however, work in Africa, Latin America, Oceania and South Asia; requests from these areas generally are related to basic human needs, such as public health, primary education and agriculture.

Table 7: Number of Experts in Japan's Major Technical Assistance Organizations and Areas Served, FY 1988

	JICA		JOCV		JODC	
	Number	Share	Number	Share	Nurber	Share
East and Southeast Asia	1,357	55.5%	126	16.0%	143	74.5%
South Asia	206	8.4	94	11.9	13	6.8
Middle East	65	2.7]			24	12.5
North Africa	76	3.1]	67	8.5	0	0.0
Subsaharan Africa	192	7.9	235	30.0	0	0.0
Latin America	445	18.2	165	21.0	12	6.3
Oceania	29	1.2	89	11.3	0	0.0
Europe	14	0.6	0	0.0	0	0.0
Other	60	2.5	11	1.4	0	0.0
Total	2,444	100.0	787	100.0	192	100.0

Source: Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1990 (Japan's Official Development Assistance, 1990 Annual Report).

Table 8: Geographical Distribution of Japan's Bilateral ODA, 1989

(in millions of dollars, disbursement basis)

	Value	Share
Northeast Asia	$919	13.6%
Southeast Asia	2,226	32.8
Southwest Asia	1,091	16.1
Middle East	368	5.4
Africa	1,040	15.3
Latin America	563	8.3
Oceania	98	1.4
Europe	11	0.2
Unclassified	461	6.8
Total	6,779	100.0

Source: Ministry of Foreign Affairs, Wagakuni no Seifu Kaihatsu Enjo, 1990 (Japan's Official Development Assistance, 1990 Annual Report).

The much smaller Japan Overseas Development Corp. program enlisted 192 experts in FY 1988 and sent the majority (74.5 percent) to East and Southeast Asia, where Japanese investment activity is strong. JODC responds to requests from a host country's private sector. Armed with a request for a certain type of job and a specific time period, JODC asks Japanese employers whether they can afford to send employees to work in the country that has requested such aid. After JODC finds appropriate experts, it pays three-quarters of the total cost, including air fare, accommodations and salary; the host company covers the rest. A majority of JODC's activity is funded by MITI.

JODC revised its program somewhat in 1987. While the organization traditionally has dispatched experts based on requests from the private sector in developing countries, the program change allows JODC to address supplying Japanese companies' preferences as well. Japanese businesses that, independently of government, intend to send their experts to a certain company in a developing country can ask JODC to subsidize a part of the total cost on the condition that the host company is not affiliated with the Japanese firm that is providing the personnel.

JODC has dispatched more than 1,500 experts overseas since it was established in 1970. To facilitate sending personnel JODC has encouraged Japanese companies to register their eligible experts as candidates before actual requests come from developing countries. As of 1988 almost 800 technicians were registered. JODC provides initial training, for example in language, for the candidates.

Receiving Trainees - JICA also runs programs to train personnel sent by developing country governments. These trainees include public servants, researchers in public institutions and managers or engineers in state-owned corporations. After JICA provides orientation in the Japanese language and a basic introduction to the Japanese economy and culture, the trainees go to various

public institutions, local governments and companies in Japan to improve their knowledge in specific areas. The number of trainees expected to be accepted in FY 1990 is 6,388, nearly three times as many as in FY 1974. Table 9 illustrates the geographical distribution of trainees hosted by JICA in FY 1988. Similar to the dispatch of JICA experts, almost two-thirds of the trainees that year came from East Asia, Southeast Asia and Latin America.

Another program that provides training in Japan is the Association of Overseas Technical Scholarship, established in 1959 to facilitate private-sector participation in technical assistance. While JICA accepts trainees in the public sector following a request from a developing country, MITI-funded AOTS sponsors managers and engineers of private companies sent from developing countries at the request of Japan's private sector. Host companies first recommend trainees who can benefit from a stay in Japan to improve their technical skills. If the application is accepted under the AOTS program, the organization provides the trainees with basic guidance, including Japanese language and management practices, before they go to receive practical training in Japanese companies. AOTS usually pays three-quarters of the total training costs, including both orientation and on-the-job training. Japanese host companies pay the rest. In FY 1988 AOTS received over 2,700 trainees, bringing the total number accepted by the organization over the past 25 years to 37,700. As is shown in Table 9, most of the trainees come from East Asia and Southeast Asia.

Table 9: Number of Trainees Hosted by Main Technical Cooperation Organizations and Areas Served, FY 1988

	JICA		AOTS	
	Number	Share	Number	Share
East and Southeast Asia	3,313	48.5%	2,067	75.4%
South Asia	618	9.0	229	8.4
Middle East	274	4.1	81	3.0
North Africa	209	3.1	26	0.9
Subsaharan Africa	685	10.0	80	2.9
Latin America	1,369	20.0	232	8.5
Oceania	258	3.8	16	0.6
Europe	104	1.5	9	0.3
Other	3	0.0	0	0.0
Total	6,833	100.0	2,740	100.0

Source: Ministry of International Trade and Industry, Keizai Kyoryoku no Genjo to Mondaiten, 1989 (White Paper on Economic Cooperation).

Recently the Japanese government has accepted trainees under specialized programs with several developing countries. For example, an arrangement with the Mexican government in effect since 1971 calls for the countries to exchange 50 to 100 engineers, public servants, scholars and students every year. Under an agreement with Malaysia the Japanese government has received 200 to 300 technicians every year since 1982. A similar program has applied to South Korean technicians since 1984. Following Prime Minister Toshiki Kaifu's visit

to Eastern Europe in January of this year, hundreds of Polish and Hungarian technicians have gone to Japan to learn industrial technology and management. Other Eastern European countries will participate in the project from 1991.

Trainees in these country-specific projects come from both the public and the private sectors based on a recommendation from their home government. JICA takes the trainees from the public sector, while AOTS is in charge of those from the private sector. Applicants follow the same orientation and practical training paths that other JICA and AOTS trainees do. To make the most of these opportunities, JICA, AOTS, government organizations and concerned business organizations, such as Keidanren (Japan Federation of Economic Organizations) and the Japan Chamber of Commerce and Industry, have organized special task forces to backstop each country-specific agreement.

The Ministry of Labor, which so far mainly has provided vocational training for Japanese instructors going overseas, is expanding its activities to offer technical assistance to workers from developing countries. Vocational training centers operated by MOL's Japan Vocational Ability Development Association were opened to foreign workers in February 1990, when the ministry invited about 200 workers between the ages of 18 and 25 from Thailand, Malaysia and Indonesia to come to Japan. These workers will spend two years at Japanese vocational training centers and factories. Each of the trainees is recommended by the labor-related ministry of his or her home government. Whereas most of the trainees received by AOTS are managers and engineers with more than 10 years of working experience, many high school graduates and unskilled employees participate in the MOL program. The Labor Ministry expects to increase the number of trainees and to broaden the number of eligible countries if the initial program works well.

Mixed Government Attitudes Toward Foreign Trainees

Tokyo's program of aiding developing countries through technical assistance intersects with government efforts to control the number of illegal foreign workers in the country (see JEI Report No. 23A, June 15, 1990). While those accepted for training under technical assistance programs are in Japan legally, people concerned about the influx of foreign workers worry that trainees will not necessarily return home at the end of their program. Thus, suggestions from aid officials and developing countries to expand the domestic portion of technical cooperation are undergoing serious review by the government as well as the ruling Liberal Democratic Party and the opposition parties.

Except for immigration records, there is no official survey of the number of foreign trainees in Japan or where they are from. Immigration data show almost 30,000 foreigners entered Japan in 1989 on a training visa. Approximately 22,700 of these came from Asia, particularly Thailand, South Korea, the Philippines and China. This figure includes government-sponsored trainees, like those hosted by JICA and AOTS, plus those sponsored by businesses. Some of the trainees' visas reportedly were arranged by organizations illegally, which then sent the "trainees" to work in companies.

Concerned about the problem of distinguishing between legal and illegal trainees, the Ministries of Foreign Affairs, International Trade and Industry, Labor and Justice are studying the possibility of establishing an organization in collaboration with the business sector to monitor the state of foreign workers' training in Japan. The collaborative venture also would offer guidance to

companies that accept trainees and provide to the trainees medical insurance coverage, vocational training in public facilities, advice on living in Japan and follow-up after the trainees return home.

The Foreign Ministry and MITI, which want an increase in government-sponsored trainees to demonstrate Japan's international cooperation through such human exchange, nevertheless are concerned that the proposed organization might intervene in the operations of JICA and AOTS; they have yet to take a clear stance. According to a late August 1990 article in Nihon Keizai Shimbun, the proposed monitoring organization is a by-product of a dispute between the Labor Ministry, which endorses accepting foreign workers, and the Justice Ministry, which has reservations about an increase in the number of foreign workers in Japan (see JEI Report No. 39B, October 13, 1989). Labor is pushing a plan allowing people who train in Japanese companies to stay in the country after the completion of their programs and work legally with the status of a skilled foreign laborer (see JEI Report No. 23A, June 15, 1990). MOL says such a plan would benefit both foreign trainees who want to work in Japan and some Japanese companies, especially small and midsized enterprises now suffering from a shortage of labor. Under MOL's interpretation those foreigners who have trained in a Japanese company no longer would be regarded as unskilled (illegal foreign) laborers since they have learned specific skills. The Ministry of Justice reportedly opposes MOL's idea since such an interpretation would provide a loophole in current immigration regulations, which prohibit visas for unskilled foreign workers. Concerns about the unregulated admission of foreign workers to Japan has an obvious impact on Tokyo's plan to extend its technical expertise by receiving trainees from developing countries.

Private Sector's Involvement in Technical Assistance

The private sector contributes to overseas technical assistance in several ways, officially and unofficially:

- By training personnel directly associated with its foreign business operations;

- By sending experts to government agencies, for example to JICA, on a temporary basis;

- By accepting trainees from foreign companies that are indirectly connected to their foreign activities, as suppliers or customers, for example; and

- By providing in-house training for employees sent by foreign governments or businesses under the auspices of a Japanese government program.

Background - The steep appreciation of the yen between 1985 and late 1988 led many Japanese exporters to shift output to factories overseas. While much of the money for offshore production facilities has gone into the United States and Europe, Ministry of Finance figures through March 1990 indicate that 23.6 percent of Japan's foreign manufacturing stake was in Asia, particularly in the newly industrialized economies of South Korea, Taiwan, Hong Kong and Singapore; another 8.5 percent was in Latin America (see JEI Report No. 23B, June 15, 1990). While location decisions depend on many factors, the cost of labor, which includes the amount of on-the-job training necessary, is high on the list (see JEI Report No. 22A, June 9, 1989).

Japanese employers traditionally have placed a high priority on human resource development and continuously provide in-house training to improve the quality of their labor force. A similar corporate strategy has been adopted for their overseas affiliates. The parent company typically sends managers and engineers to the subsidiary in a developing country to provide skills to local production workers and know-how to managerial employees. The parent also often invites local managers and engineers to Japan to provide further training. Not a few corporations are making concrete efforts in the technical assistance field, such as setting up their own vocational training facilities both in Japan and abroad and hiring full-time instructors. Although this kind of activity is not counted as official development assistance, it makes up an important part of Japan's overseas technical assistance program.

Increasing Third World requests for technical assistance at both the public and the private levels have raised expectations that Japan's business community will become more involved in technical assistance, sending experts to and taking trainees from not only their overseas affiliates but from other organizations as well. Since they already are busy training employees from their foreign subsidiaries and joint ventures, however, Japanese manufacturers and other companies say they do not have the resources to train workers not related to their business. Without incentives the private sector is unlikely to become involved more heavily in noncommercial activities that would expand Japan's ability to offer technical cooperation to developing countries. Even though Tokyo has projected increases in its foreign aid program, the weakness in the private-sector link may retard effective dispersion of the technical assistance component.

Motivations for the Private Sector - A major restriction in providing increased technical assistance is a shortage of qualified instructors. Not only are instructors required to have technical knowledge and foreign language ability but they also are expected to be able to transcend cultural barriers; this takes time. Businesses, in particular, hesitate to assign valuable personnel to JICA or other technical assistance programs even if the government compensates the company by paying salaries. What is needed, individual firms and business organizations have told the government, is for the sponsoring ministry also to cover business losses caused by the absence of company experts.

In-house training also poses problems, according to companies that have accepted government-sponsored trainees. Insufficient government funds and a shortage of qualified instructors make it difficult to meet rapidly growing requests from developing countries, they say. A survey by Keidanren underscored the discrepancy between what it costs a company to provide in training and what the government reimburses. The survey showed that the cost to the company of training one JICA-approved worker totaled more than Y1 million ($7,407) a month, yet only about one-tenth of this amount was covered by the government. In particular the government does not fully reimburse instructors' fees since these company employees already are receiving a salary. However, as instructors they typically also receive a stipend, which the government does not cover. This example would seem to indicate that the cost-sharing formula will have to be revised before more companies participate in government-sponsored trainee programs.

Japanese companies, however, do gain some benefit from their training contributions. For trainees sent by suppliers, customers or other company-selected organizations, the trained individuals presumably will contribute to

the Japanese company's long-run welfare upon their return to their home base. Moreover, to the degree that trainees participating in on-the-job training contribute to the output of the Japanese company, the training cannot be counted as a pure cost. Therefore, any cost-sharing formula would have to tread the line between subsidizing private activities and providing sufficient incentive for the private-sector to participate in a broad national program.

The problem of an insufficient number of qualified instructors in both the government and the private sector goes beyond the issue of financial compensation. Given the way career advancement generally works in Japan, an excursion outside the regular path to success can be considered a dead end and not just a detour. It has been reported that people who accept temporary overseas assignments as JICA specialists or Japan Overseas Cooperation Volunteers return to find that they have a harder time being promoted than their colleagues. While the increased number of employees working abroad for Japan's multinational corporations may have begun to alter the traditional view of career paths and made service abroad an important asset, this hurdle most likely will continue for most employees who take a temporary leave of absence to work for JICA or JOCV.

One way the government is considering making overseas service more attractive to Japanese companies is by broadening the areas of study and the opportunities provided to workers who sign up as instructors from the private sector. The Labor Ministry has set up the Overseas Vocational Training Association to provide skilled Japanese workers with special training to become instructors overseas. Those who have received training from the association can work overseas not only as JICA experts but for their employer as well. The government, in cooperation with Keidanren, also established this year a new type of advanced training and research organization, the Foundation for Advanced Studies on International Development, to foster the progress of personnel who are well-versed in international development affairs in general and have expertise in human resources development. The organization admits applicants from both the public and the private sectors.

Business Community's Initiative - Despite the concerns of some corporate executives, several organizations have taken the initiative to help provide technical assistance to developing countries. These moves not only reflect the increase in requests for Japanese companies to accept government-sponsored trainees or to send experts to Third World countries but also the thinking in the private sector that it might be better to respond positively so that the business community will be a full partner in a well-rounded, organized program rather than responding to sometimes haphazard requests.

The business community of western Japan (Kansai) worked with local governments to establish the Pacific Human Exchange Center this year. The center assists trainees from the Asian Pacific region by lining up potential company sponsors in the Kansai area. The organization collaborates with the local branch offices of JICA and AOTS and makes a list of companies that have agreed to host trainees. Nikkeiren (Japan Federation of Employers' Associations) and the Japan Productivity Center also launched several management training programs for workers sent from developing countries and some of the newly democratizing socialist countries.

In a position paper unveiled in April on promoting the development of human resources in Third World countries Keidanren urged Japan to improve the

networks between public agencies and the private sector to facilitate sending experts and receiving trainees. Specifically, Keidanren suggested that the ministries and the agencies involved in overseas technical cooperation maintain closer liaison with each other to improve the coordination of policymaking. It noted, for example, that while several government white papers or annual reports discuss technical cooperation, no one report covers the activities of all the organizations working in the technical assistance field. More concretely, the business organization advocated that ministries and agencies work together to produce a brochure in Japanese and English on the form, current state and procedures associated with Japan's technical assistance program.

Other mechanisms for the private provision of training appear to be limited by the nature of Japanese career patterns. For example, the creation of specialized schools under contract to the Japanese government and oriented toward training foreign workers is thwarted by the difficulty of attracting qualified teachers from their corporate employers. The same barriers would impede the formation of government-managed training institutes. In the short-run, at least, the private sector's monopoly of technical experts, together with the career paths of Japanese employees, suggests that the growth of overseas technical assistance will require greater explicit payments to industry to participate in a nationally valued but costly activity.

In sum, the government remains concerned about how it will encourage more private-sector participation in the dispatch of experts to countries requesting Japan's foreign economic assistance. Similarly, corporations are taking the initiative in some cases but waiting for government in other cases to sweeten its incentives for them to join technical assistance programs. As Japan's foreign aid program matures and more emphasis is put on human resource development, these interrelationships between the government and the private sector will become more critical.

For further information, contact Tadashi Saito.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov.1, Pgs: 3-6, 9-12